

**THORNAPPLE KELLOGG SCHOOL DISTRICT**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary and additional information)**  
**YEAR ENDED JUNE 30, 2008**

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Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Raeck  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis  
James A. McNeeley

Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Thornapple Kellogg School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Thornapple Kellogg School District, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Thornapple Kellogg School Districts' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Thornapple Kellogg School District as of June 30, 2008 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2008, on our consideration of Thornapple Kellogg School Districts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xiii and 33, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Thornapple Kellogg School Districts' basic financial statements. The additional information on pages 35 to 48 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Maner, Costinison & Ellis, P.C.*

October 16, 2008

## **BASIC FINANCIAL STATEMENTS**

**THORNAPPLE KELLOGG SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

<b>ASSETS</b>	<b><u>Governmental activities</u></b>
<b>CURRENT ASSETS:</b>	
Cash	\$ 4,397,515
Receivables:	
Accounts receivable	11,897
Property taxes receivable	66,066
Due from other governmental units	4,039,488
Inventories	14,461
Prepaid expenditures	15,745
Restricted cash - capital projects	5,864,223
Restricted investments - capital projects	<u>22,902,892</u>
<b>TOTAL CURRENT ASSETS</b>	<u>37,312,287</u>
<b>NONCURRENT ASSETS:</b>	
Deferred charges, net of amortization	963,382
Capital assets	65,008,425
Less accumulated depreciation	<u>(14,419,264)</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>51,552,543</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 88,864,830</u></u>

	<b>Governmental activities</b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 1,223,668
Accrued salaries and related items	1,738,085
Due to other governmental units	882,808
Accrued interest	535,770
Deferred revenue	101,026
Current portion of long-term obligations	2,130,000
Current portion of compensated absences and termination benefits	<u>45,208</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>6,656,565</u>
<b>NONCURRENT LIABILITIES:</b>	
Noncurrent portion of long-term obligations	74,109,247
Noncurrent portion of compensated absences and termination benefits	<u>497,284</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>74,606,531</u>
<b>TOTAL LIABILITIES</b>	<u>81,263,096</u>
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	4,747,953
Unrestricted	<u>2,853,781</u>
<b>TOTAL NET ASSETS</b>	<u>7,601,734</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 88,864,830</u></u>



**THORNAPPLE KELLOGG SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2008**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense)
				revenue and changes in net assets
Governmental activities:				
Instruction	\$ 16,552,680	\$ -	\$ 972,728	\$ (15,579,952)
Support services	9,502,418	-	8,639	(9,493,779)
Community services	256,125	213,381	-	(42,744)
Food service	1,036,343	610,511	392,931	(32,901)
Athletics	719,253	122,284	-	(596,969)
Public library	45,848	37,482	9,625	1,259
Interest on long-term debt	3,467,521	-	-	(3,467,521)
Total governmental activities	<u>\$ 31,580,188</u>	<u>\$ 983,658</u>	<u>\$ 1,383,923</u>	<u>(29,212,607)</u>
General revenues:				
Property taxes, levied for general purposes				2,144,853
Property taxes, levied for debt service				3,638,172
Investment earnings				1,495,315
State sources				20,432,713
Intermediate sources				1,492,559
Other				<u>115,587</u>
Total general revenues				<u>29,319,199</u>
CHANGE IN NET ASSETS				106,592
NET ASSETS, beginning of year				<u>7,495,142</u>
NET ASSETS, end of year				<u>\$ 7,601,734</u>

See notes to financial statements.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008**

	<u>General fund</u>	<u>2002 Capital projects</u>	<u>2007 Capital projects</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
<b>ASSETS</b>					
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 3,998,992	\$ -	\$ -	\$ 398,523	\$ 4,397,515
Receivables:					
Property taxes receivable	62,776	-	-	3,290	66,066
Accounts receivable	11,897	-	-	-	11,897
Due from other governmental units	4,026,256	-	-	13,232	4,039,488
Inventories	-	-	-	14,461	14,461
Prepaid expenditures	15,745	-	-	-	15,745
Restricted cash and cash equivalents	-	82,965	5,781,258	-	5,864,223
Restricted investments	-	-	22,902,892	-	22,902,892
<b>TOTAL ASSETS</b>	<u>\$ 8,115,666</u>	<u>\$ 82,965</u>	<u>\$ 28,684,150</u>	<u>\$ 429,506</u>	<u>\$ 37,312,287</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES:</b>					
Accounts payable	\$ 333,796	\$ -	\$ 867,931	\$ 21,941	\$ 1,223,668
Accrued salaries and related items	1,734,868	-	-	3,217	1,738,085
Due to other governmental units	880,140	-	-	2,668	882,808
Deferred revenue	118,312	-	-	15,749	134,061
<b>TOTAL LIABILITIES</b>	<u>3,067,116</u>	<u>-</u>	<u>867,931</u>	<u>43,575</u>	<u>3,978,622</u>
<b>FUND BALANCES:</b>					
Reserved for inventories	-	-	-	3,112	3,112
Reserved for prepaid expenditures	15,745	-	-	-	15,745
Reserved for encumbrances	105,420	-	-	-	105,420
Reserved for debt service	-	-	-	319,631	319,631

See notes to financial statements.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008**

	<u>General fund</u>	<u>2002 Capital projects</u>	<u>2007 Capital projects</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
<b>FUND BALANCES:</b>					
Unreserved:					
Designated for retirement and sick leave	\$ 561,158	\$ -	\$ -	\$ -	\$ 561,158
Designated for capital improvements	750,000	-	-	-	750,000
Designated for subsequent year expenditures	877,127	-	-	-	877,127
Undesignated	<u>2,739,100</u>	<u>82,965</u>	<u>27,816,219</u>	<u>63,188</u>	<u>30,701,472</u>
<b>TOTAL FUND BALANCES</b>	<u>5,048,550</u>	<u>82,965</u>	<u>27,816,219</u>	<u>385,931</u>	<u>33,333,665</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 8,115,666</u>	<u>\$ 82,965</u>	<u>\$ 28,684,150</u>	<u>\$ 429,506</u>	<u>\$ 37,312,287</u>
<b>Total governmental fund balances</b>					\$ 33,333,665
Amounts reported for governmental activities in the statement of net assets are different because:					
Value of unamortized bond issuance costs					963,382
Capital assets used in governmental activities are not financial resources and are not reported in the funds					
The cost of the capital assets is				\$ 65,008,425	
Accumulated depreciation is				<u>(14,419,264)</u>	
					50,589,161
Long-term liabilities are not due and payable in the current period and are not reported in the funds:					
Bonds payable					(76,239,247)
Compensated absences and termination benefits					(542,492)
Accrued interest is not included as a liability in government funds, it is recorded when paid					(535,770)
Deferred revenue at June 30, 2008, expected to be collected after September 1, 2008					<u>33,035</u>
<b>Net assets of governmental activities</b>					<u>\$ 7,601,734</u>

See notes to financial statements.

**THORNAPPLE KELLOGG SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2008**

	<u>General fund</u>	<u>2002 Capital projects</u>	<u>2007 Capital projects</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
<b>REVENUES:</b>					
Local sources:					
Property taxes	\$ 2,173,880	\$ -	\$ -	\$ 3,636,526	\$ 5,810,406
Investment earnings	118,374	11,841	1,332,770	32,330	1,495,315
Other local sources	328,968	-	-	742,736	1,071,704
Total local sources	2,621,222	11,841	1,332,770	4,411,592	8,377,425
Intermediate sources	1,492,559	-	-	27,541	1,520,100
State sources	20,751,537	-	-	61,678	20,813,215
Federal sources	662,543	-	-	340,878	1,003,421
Total revenues	25,527,861	11,841	1,332,770	4,841,689	31,714,161
<b>EXPENDITURES:</b>					
Current:					
Instruction	15,204,264	-	-	-	15,204,264
Supporting services	9,703,326	-	-	-	9,703,326
Food service	-	-	-	1,002,921	1,002,921
Athletics	-	-	-	600,376	600,376
Community service	242,238	-	-	45,848	288,086
Capital outlay	-	480,889	2,434,079	-	2,914,968

See notes to financial statements.

	<u>General fund</u>	<u>2002 Capital projects</u>	<u>2007 Capital projects</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
<b>EXPENDITURES:</b>					
Debt service:					
Principal repayment	\$ -	\$ -	\$ 345,000	\$ 2,065,000	\$ 2,410,000
Interest on bonded debt	-	-	-	2,825,013	2,825,013
Bond issuance costs	-	-	292,054	-	292,054
Other	-	-	-	13,366	13,366
	<u>25,149,828</u>	<u>480,889</u>	<u>3,071,133</u>	<u>6,552,524</u>	<u>35,254,374</u>
Total expenditures					
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>378,033</u>	<u>(469,048)</u>	<u>(1,738,363)</u>	<u>(1,710,835)</u>	<u>(3,540,213)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from issuance of bonds	-	-	28,960,000	-	28,960,000
Bond Premium	-	-	638,405	-	638,405
Proceeds from school bond loan fund				856,187	856,187
Operating transfers from other funds	43,823	-	-	500,000	543,823
Operating transfers to other funds	(500,000)	-	(43,823)	-	(543,823)
	<u>(456,177)</u>	<u>-</u>	<u>29,554,582</u>	<u>1,356,187</u>	<u>30,454,592</u>
Total other financing sources (uses)					
<b>NET CHANGE IN FUND BALANCES</b>	<u>(78,144)</u>	<u>(469,048)</u>	<u>27,816,219</u>	<u>(354,648)</u>	<u>26,914,379</u>
<b>FUND BALANCES:</b>					
Beginning of year	<u>5,126,694</u>	<u>552,013</u>	<u>-</u>	<u>740,579</u>	<u>6,419,286</u>
End of year	<u>\$ 5,048,550</u>	<u>\$ 82,965</u>	<u>\$ 27,816,219</u>	<u>\$ 385,931</u>	<u>\$ 33,333,665</u>

See notes to financial statements.

**THORNAPPLE KELLOGG SCHOOL DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2008**

**Net change in fund balances total governmental funds** \$ 26,914,379

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(1,764,506)
Capital outlay	3,425,934
Loss on disposal of capital assets	(11,673)

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	300,935
Accrued interest payable, end of the year	(535,770)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:

Proceeds from issuance of bonds	(28,960,000)
Borrowings from school loan revolving fund	(856,187)
Payments on debt	2,410,000
Bond issuance costs	292,054
Premium on issuance of bonds	(638,405)
Deferred loss on refunding	
Amortization of bond issuance costs	(58,314)
Amortization of deferred loss on refunding	(26,659)
Amortization of bond premium	26,600
Amortization of bond discount	(4,141)
Long-term interest on school bond loan fund (accrued)	(340,499)
Long-term interest on school loan revolving fund (accrued)	(54,928)

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue, beginning of the year	(60,415)
Deferred revenue, end of the year	33,035

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences and termination benefits, beginning of the year	557,644
Accrued compensated absences and termination benefits, end of the year	(542,492)

<b>Change in net assets of governmental activities</b>	<b>\$ 106,592</b>
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**THORNAPPLE KELLOGG SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**JUNE 30, 2008**

	<u>Agency fund</u>	<u>Trust Funds</u>
<b>ASSETS:</b>		
Cash	\$ 271,336	\$ 36,463
Accounts receivable	<u>-</u>	<u>9,209</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 271,336</u></u>	<u><u>\$ 45,672</u></u>
 <b>LIABILITES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Due to employees	\$ -	\$ 5,248
Due to student groups	<u>271,336</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	271,336	5,248
<b>NET ASSETS:</b>		
Reserved for trust activities	<u>-</u>	<u>40,424</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 271,336</u></u>	<u><u>\$ 45,672</u></u>

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
YEAR ENDED JUNE 30, 2008**

	<u><b>Trust Funds</b></u>
<b>ADDITIONS:</b>	
Interest earnings	\$ 976
Other	<u>22</u>
Total additions	<u>998</u>
<b>DEDUCTIONS:</b>	
Bank fees	33
Office supplies	<u>70</u>
Total deductions	<u>103</u>
<b>CHANGE IN NET ASSETS</b>	895
<b>NET ASSETS:</b>	
Beginning of year	<u>39,529</u>
End of year	<u><u>\$ 40,424</u></u>



**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

Thornapple Kellogg School District (“the District”) was organized under the School Code of the State of Michigan and services a population of approximately 3,000 students. The District is governed by the Thornapple Kellogg Schools Board of Education (the “Board”), consisting of seven members elected to four-year terms. The Board has decision-making authority, the power to designate management and responsibility for the primary accountability for fiscal matters.

The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services.

The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. In addition, the District’s reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and No. 39.

The financial statements of Thornapple Kellogg School District have been prepared in conformity with accounting principles generally accepted in the United States of America, as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**B. District-wide and Fund Financial Statements**

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities.

The district-wide statement of net assets is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. As of June 30, 2008, the District did not have restricted net assets.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. District-wide and Fund Financial Statements (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted State Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

The district-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This district-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental Funds** - Governmental funds are used to account for the District's general activity. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

**Major governmental funds:**

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund. It is considered a major fund.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. District-wide and Fund Financial Statements (Concluded)**

The *2002 capital projects fund* accounts for financial resources to be used for the acquisition of fixed assets or construction of major capital projects. It is considered a major fund.

The *2007 capital projects fund* accounts for financial resources to be used for the acquisition of fixed assets or construction of major capital projects. It is considered a major fund.

The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

Beginning with the year of bond issuance, the District has reported the annual construction activity in the 2002 Capital Projects Fund. The project for which the 2002 capital project bonds were issued was considered complete on September 1, 2005.

**Non-major governmental funds:**

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its food service, athletic and public library activities in the special revenue funds. None of the special revenue funds are considered major funds.

The *debt service funds* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. The 2002, 2004, 2006 and 2007 debt service funds are not considered major funds.

**Fiduciary funds** account for assets held by the District in a trustee capacity or as an agent for individuals or school-related organizations. Fiduciary funds are not included in the District's financial statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity. The two agency funds are comprised of the student activity fund and the flexible spending fund.

The *private purpose trust fund* is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where both the principal and interest may be spent. The activity of the student loan program are reported here.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Measurement focus refers to what is being measured and basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The district-wide and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the district-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

**E. Other Accounting Policies**

*1. Investments*

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Other Accounting Policies (Continued)**

*1. Investments (Concluded)*

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

*2. Property Taxes*

Property taxes for the District are levied December 1 by the townships of Leighton, Wayland, Carlton, Irving, Orangeville, Rutland, Thornapple, Yankee Springs, Campbell, Bowne, and Caledonia. The taxes are then collected by each governmental unit and remitted to the District. The counties of Allegan, Barry, Ionia, and Kent, through their delinquent Tax Revolving Fund, advance all delinquent real property taxes at March 1 to the District each year prior to June 30.

Taxes uncollected are written off after three years from the date of the levy, unless material in amount.

Section 1211(1) of 1993 PA 32 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

Thornapple Kellogg Schools' voters approved an operating millage extension of the 18 mill non-homestead property tax which was levied in the District for 2008.

The District levied 7.0 mills in 2008 for debt service applied on all taxable property in the District.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Other Accounting Policies (Continued)**

2. *Property Taxes (Concluded)*

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A, taxable property is now divided into two categories: homestead and non-homestead.

Homestead property is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage", or any additional voted millage for the retirement of debt.

Non-homestead property is considered to be all property not qualifying for a homestead exemption, which includes all commercial and industrial property. Non-homestead property is subject to all District levies.

3. *Inventories*

Inventories are valued at cost (first-in, first-out). Inventories of the food service fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

4. *Interfund Activity*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds."

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Other Accounting Policies (Continued)**

5. *Capital Assets*

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets life are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Land improvements, buildings and additions, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10 - 20 years
Buildings and additions	40 - 50 years
Vehicles	5 - 10 years
Furniture and other equipment	3 - 10 years

6. *Compensated Absences*

Severance pay, accumulated sick leave, and early retirement incentive at June 30, 2008, has been computed and recorded in the basic financial statements of the District. Eligible District employees who select early retirement are entitled to a termination leave payment based on their age and years of service. The liability for compensated absences includes salary related payments. In the fund financial statements only the matured liability is reported. The total liability is recorded in the district-wide financial statements.

7. *Net Asset Report*

In the computation of invested in capital assets, net of related debt, school bond loan fund and school bond revolving fund principal proceeds of \$3,986,283 are considered capital-related debt. Accrued interest on the school bond loan fund and school bond revolving fund of \$1,535,473 has been included in the calculation of restricted and unrestricted net assets.



**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**E. Other Accounting Policies (Concluded)**

**8. *Long-term Obligations***

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**9. *Use of Estimates***

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

State of Michigan 1968 PA 2 (the Uniform Budgetary and Accounting Act) requires that the general fund of a school district is under budgetary control and that both budgeted and actual financial results do not incur a deficit. Thornapple Kellogg Schools has also adopted budgets for its special revenue funds. A school district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the fund level. Violations, if any, are noted in the required supplementary information section. All appropriations lapse at the end of the fiscal year.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting (Concluded)**

Thornapple Kellogg Schools utilize the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent and Director of Finance and Operations to establish proposed operating budgets for the fiscal year commencing in the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original general and special revenue funds budgets were amended during the year in compliance with State of Michigan 1968 PA 2 (the Uniform Budgetary and Accounting Act).
- Budgets for the general and special revenue funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS**

As of June 30, 2008, the District had the following investments:

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted average maturity (years)</b>	<b>Standard &amp; Poor's Rating</b>	<b>%</b>
MILAF Investment pool - MICMS	\$ 1,796	0.0027	AAAm	0.0%
MILAF Investment pool - MIMAX	76,571	0.0027	AAAm	0.3%
Bonds	1,305,278	0.2565	AAA	5.7%
Commerical paper	3,372,612	0.2486	A - 1+	14.7%
US Treasury / Agency Securities	18,225,002	0.6483	AAA	79.3%
Total fair value	<u>\$ 22,981,259</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>0.5649</u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2008, the fair value of the District's investments is the same as the value of the pool shares.

**Interest rate risk.** In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

**Concentration of credit risk.** The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS (Concluded)**

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2008, \$10,697,688 of the District's bank balance of \$11,097,688 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk - investments.** For an investment, this is the risk that, in the event of the failure of the counter party, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

**Foreign currency risk.** The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of \$307,799	\$ 10,491,170
Investments	<u>22,981,259</u>
	<u><u>\$ 33,472,429</u></u>

The above amounts are reported in the financial statements as follows:

Cash - agency fund	\$ 307,799
Cash - district wide	4,397,515
Restricted cash and cash equivalents - Capital projects	5,864,223
Restricted investments - Capital projects	<u>22,902,892</u>
	<u><u>\$ 33,472,429</u></u>

**THORNAPPLE KELLOGG SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in the District's capital assets follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,545,846	\$ 18,854	\$ -	\$ 1,564,700
Construction in progress	-	2,751,092		2,751,092
Total capital assets, not being depreciated	1,545,846	2,769,946	-	4,315,792
Capital assets, being depreciated:				
Land improvements	1,957,366	3,550	(19,454)	1,941,462
Buildings and additions	53,784,647	32,660	-	53,817,307
Furniture and equipment	2,944,120	369,561	(17,849)	3,295,832
Vehicles	1,387,815	250,217	-	1,638,032
Total capital assets, being depreciated	60,073,948	655,988	(37,303)	60,692,633
Accumulated depreciation:				
Land improvements	551,134	91,860	(7,782)	635,212
Buildings and additions	9,676,764	991,844	-	10,668,608
Furniture and equipment	1,384,429	586,180	(17,848)	1,952,761
Vehicles	1,068,061	94,622	-	1,162,683
Total accumulated depreciation	12,680,388	1,764,506	(25,630)	14,419,264
Net capital assets being depreciated	47,393,560	(1,108,518)	(11,673)	46,273,369
Net governmental capital assets	\$ 48,939,406	\$ 1,661,428	\$ (11,673)	\$ 50,589,161

**THORNAPPLE KELLOGG SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - CAPITAL ASSETS (Concluded)**

Depreciation for the fiscal year ended June 30, 2008 was allocated to the following programs:

Instruction	\$ 1,351,895
Support services	246,425
Community services	13,887
Food services	33,422
Athletics	<u>118,877</u>
	<u><u>\$ 1,764,506</u></u>

**NOTE 5 - DUE FROM OTHER GOVERNMENTAL UNITS**

Due from other governmental units at June 30, 2008 consist of the following:

Other governmental units:	
State aid	\$ 3,671,004
Other	<u>368,484</u>
	<u><u>\$ 4,039,488</u></u>

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT**

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

Long-term debts and other obligations currently outstanding are as follows:

2002 general obligation bonds due in annual installments of \$600,000 to \$1,025,000 through May 2022 with interest from 3.150% to 5.000%	\$ 11,170,000
2004 refunding term bonds due in annual installments of \$1,120,000 to \$1,235,000 through May 2022 with interest from 2.750% to 5.000%	16,470,000
2006 refunding term bonds due in annual installments of \$30,000 to \$1,570,000 through May 2028 with interest from 4.000% to 4.150%	9,925,000
2007 general obligation bonds due in annual installments of \$265,000 to \$1,770,000 through May 2032 with interest from 4.000% to 5.000%	28,760,000
Less: deferred amount on bond refunding (net)	(373,218)
Less: discount on 2006 bond issuance (net)	(82,816)
Add: premium and 2007 bond issuance (net)	<u>611,805</u>
Total general obligation debt	66,480,771
Limited obligation (Durant) bonds due in annual installments of \$22,104 to \$67,857 through May 2013 with an interest rate of 4.76%. Certain future state aid payments have been pledged as security.	<u>162,788</u>
Total bonded debt	66,643,559
Borrowings from the State of Michigan under the School Bond Loan Fund, including interest	7,916,831
Borrowings from the State of Michigan under the School Loan Revolving Fund, including interest	1,678,857
Obligation under contract for compensated absences	298,492
Obligation under contract for severance benefits	<u>244,000</u>
Total general long-term debt	<u><u>\$ 76,781,739</u></u>

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT (Continued)**

The annual requirements to amortize long-term debt outstanding as of June 30, 2008, including interest of \$37,479,706 are as follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 2,152,104	\$ 3,053,987	\$ 5,206,091
2010	2,228,156	2,978,985	5,207,141
2011	2,314,259	2,893,858	5,208,117
2012	2,410,412	2,800,818	5,211,230
2013	2,562,857	2,705,187	5,268,044
2014-2018	14,380,000	11,516,056	25,896,056
2019-2023	17,405,000	7,460,987	24,865,987
2024-2028	15,975,000	3,539,578	19,514,578
2029 - 2032	7,060,000	530,250	7,590,250
Total	66,487,788	37,479,706	103,967,494
Due to school bond loan fund	7,916,831		7,916,831
Due to school loan revolving fund	1,678,857		1,678,857
Deferred amount on bond refunding	(373,218)		(373,218)
Unamortized discount on bond issuance	(82,816)		(82,816)
Unamortized premium on bond issuance	611,805		611,805
Accumulated compensated absences	298,492		298,492
Accumulated severance benefits	244,000		244,000
	<u>\$76,781,739</u>	<u>\$37,479,706</u>	<u>\$ 114,261,445</u>

An amount of approximately \$320,000 is available in the debt service funds to service the general obligation debt.

Borrowing from the State of Michigan – The school bond loans payable represents notes payable to the State of Michigan for loans made to the school district, as authorized by the State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the school district issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board, Interest rates ranging from 4.38% - 4.82% for the School Revolving Fund notes and 4.25% - 4.75% for the School Bond Loan Fund notes have been assessed for the year ended June 30, 2008. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below 7.00 mills. The school district is required to levy 7.003 mills and repay to the state any excess of the amount levied over the bonded debt service requirements. Due the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the school district, no provision for repayment has been included in the above amortization schedule.



**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT (Concluded)**

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2008:

	Compensated absences/early retirement and severance benefits	General obligation bonds	Land contract	
Balance July 1, 2007	\$ 557,644	\$ 38,943,166	\$ 345,000	
Additions	47,618	29,598,405	-	
Deletions	(62,770)	(2,060,800)	(345,000)	
Balance June 30, 2008	542,492	66,480,771	-	
Less current portion	(45,208)	(2,130,000)	-	
Total due after one year	<u>\$ 497,284</u>	<u>\$ 64,350,771</u>	<u>\$ -</u>	

  

	Limited obligation bonds	School bond loan fund	School loan revolving fund	Total
Balance July 1, 2007	\$ 162,788	\$ 7,576,332	\$ 767,742	\$ 48,352,672
Additions	-	340,499	911,115	30,897,637
Deletions	-	-	-	(2,468,570)
Balance June 30, 2008	162,788	7,916,831	1,678,857	76,781,739
Less current portion	-	-	-	(2,175,208)
Total due after one year	<u>\$ 162,788</u>	<u>\$ 7,916,831</u>	<u>\$ 1,678,857</u>	<u>\$ 74,606,531</u>

On July 17, 2007, Thornapple Kellogg Schools issued general obligation bonds of \$28,960,000 with an interest rate ranging from 4.000% to 5.000%. The bonds mature on May 1, 2032. The general obligation bonds were issued at a premium after paying issuance costs of \$292,054 which includes the underwriters discount, the net proceeds were \$29,466,637.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2008, was 17.74% through September 2007 and 16.72% for October 1, 2007 through June 30, 2008. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2008, 2007 and 2006 were \$2,342,290, \$2,251,484 and \$1,979,595, respectively, and were equal to the required contribution for those years.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension.

The District is not responsible for the payment of retirement benefits or other post-employment benefits which is the responsibility of the State of Michigan.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - RISK MANAGEMENT**

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District is a member of the West Michigan Risk Management Trust (Trust), a self-insurance program with 27 districts pooling together to insure property, liability and auto exposures. Premiums from members of the Trust are arrived at through standard underwriting procedures. The members of the Trust have contributed amounts sufficient to fund individual and aggregate losses up to \$250,000 and \$1,300,000 respectively, on an annual basis. Excess insurance has been purchased to cover claims exceeding those amounts. A \$1,000 per occurrence deductible for property losses is maintained to place the responsibility for small charges with the members of the Trust.

The District is a member of the West Michigan Workers' Compensation Fund, a self-insurance program with 20 districts pooling together to insure workers' compensation and employers' liability exposures. The fund pays the first \$450,000 of any workers' compensation or employers' liability loss out of a \$2,125,177 loss fund collected from members. Excess insurance has been purchased to cover claims exceeding those amounts.

Health and life insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 9 - BOND COMPLIANCE**

The 2002 and 2007 capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

The following is a summary of the revenue and expenditures for the capital projects bond activity since inception:

	<u>2002 Bond</u>	<u>2007 Bond</u>
Revenue and other financing sources	<u>\$ 25,209,608</u>	<u>\$ 30,799,407</u>
Expenditures and transfers	<u>\$ 25,126,643</u>	<u>\$ 2,983,188</u>

The above revenue amount includes net bond proceeds of \$24,341,529 and \$29,466,637 for the 2002 and 2007 bond, respectively.

**THORNAPPLE KELLOGG SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - OPERATING TRANSFERS**

Operating transfers between funds during the year ended June 30, 2008 were as follows:

<u>Fund</u>	<u>Operating transfers in</u>	<u>Operating transfers out</u>
General	\$ 43,823	\$ 500,000
2007 Capital projects	-	43,823
Athletic	<u>500,000</u>	<u>-</u>
	<u><u>\$ 543,823</u></u>	<u><u>\$ 543,823</u></u>

The general fund transferred \$500,000 to the athletic fund to subsidize operations. The 2007 Capital projects fund transferred \$43,823 to the general fund for reimbursement of architectural fees paid by the general fund in the prior year.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2008**

	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget- positive (negative)</b>
<b>REVENUES:</b>				
Local sources	\$ 2,572,826	\$ 2,587,462	\$ 2,621,222	\$ 33,760
Intermediate sources	1,332,272	1,460,585	1,492,559	31,974
State sources	20,110,225	20,758,841	20,751,537	(7,304)
Federal sources	575,724	660,245	662,543	2,298
Total revenues	24,591,047	25,467,133	25,527,861	60,728
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Basic programs	13,095,473	13,028,934	13,006,008	22,926
Added needs	2,097,962	2,152,188	2,198,256	(46,068)
Total instruction	15,193,435	15,181,122	15,204,264	(23,142)
Supporting services:				
Pupil	1,688,243	1,640,512	1,594,576	45,936
Instructional staff	1,180,270	1,125,460	1,123,981	1,479
General administration	396,192	416,352	397,497	18,855
School administration	1,329,687	1,342,911	1,293,728	49,183
Business	466,957	545,553	470,405	75,148
Operation/maintenance	2,787,039	2,651,279	2,645,370	5,909
Pupil transportation	1,880,471	2,007,999	2,019,715	(11,716)
Central	9,100	161,925	158,054	3,871
Total supporting services	9,737,959	9,891,991	9,703,326	188,665
Community services	235,944	259,507	242,238	17,269
Total expenditures	25,167,338	25,332,620	25,149,828	182,792
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(576,291)	134,513	378,033	243,520
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers from other funds	-	43,823	43,823	-
Operating transfers to other funds	(500,000)	(500,000)	(500,000)	-
Total other financing uses	(500,000)	(456,177)	(456,177)	-
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (1,076,291)</u>	<u>\$ (321,664)</u>	(78,144)	<u>\$ 243,520</u>
<b>FUND BALANCE:</b>				
Beginning of year			5,126,694	
End of year			<u>\$ 5,048,550</u>	

## **ADDITIONAL INFORMATION**

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2008**

	<u>Special revenue</u>	<u>Debt service</u>	<u>Total nonmajor governmental funds</u>
<b>ASSETS</b>			
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 77,515	\$ 321,008	\$ 398,523
Property taxes receivable	-	3,290	3,290
Due from other governmental units	13,232	-	13,232
Inventories	14,461	-	14,461
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL ASSETS</b>	<u>\$ 105,208</u>	<u>\$ 324,298</u>	<u>\$ 429,506</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 21,941	\$ -	\$ 21,941
Accrued salaries and related items	3,217	-	3,217
Due to other governmental units	11	2,657	2,668
Deferred revenue	13,739	2,010	15,749
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL LIABILITIES</b>	<u>38,908</u>	<u>4,667</u>	<u>43,575</u>
<b>FUND BALANCES:</b>			
Reserved for inventories	3,112	-	3,112
Reserved for debt service	-	319,631	319,631
Unreserved, undesignated	63,188	-	63,188
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL FUND BALANCES</b>	<u>66,300</u>	<u>319,631</u>	<u>385,931</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 105,208</u>	<u>\$ 324,298</u>	<u>\$ 429,506</u>



**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2008**

	<b>Special revenue</b>	<b>Debt service</b>	<b>Total nonmajor governmental funds</b>
<b>REVENUES:</b>			
Local sources:			
Property taxes	\$ -	\$ 3,636,526	\$ 3,636,526
Sales and admissions	724,869	-	724,869
Investment earnings	2,236	30,094	32,330
Other	17,867	-	17,867
Total local sources	744,972	3,666,620	4,411,592
Intermediate sources	27,541	-	27,541
State sources	61,678	-	61,678
Federal sources	340,878	-	340,878
Total revenues	1,175,069	3,666,620	4,841,689
<b>EXPENDITURES:</b>			
Current:			
Food service	1,002,921	-	1,002,921
Athletics	600,376	-	600,376
Public library	45,848	-	45,848
Debt service:			
Principal repayment	-	2,065,000	2,065,000
Interest on bonded debt	-	2,825,013	2,825,013
Other	-	13,366	13,366
Total expenditures	1,649,145	4,903,379	6,552,524
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	(474,076)	(1,236,759)	(1,710,835)
<b>OTHER FINANCING SOURCES:</b>			
Proceeds from school bond loan fund	-	856,187	856,187
Operating transfers from other funds	500,000	-	500,000
Total other financing sources	500,000	856,187	1,356,187
<b>NET CHANGE IN FUND BALANCES</b>	25,924	(380,572)	(354,648)
<b>FUND BALANCES:</b>			
Beginning of year	40,376	700,203	740,579
End of year	\$ 66,300	\$ 319,631	\$ 385,931

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 2008**

	<b>Food Service</b>	<b>Athletics</b>	<b>Public Library</b>	<b>Total</b>
<b>ASSETS</b>				
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 13,643	\$ 52,031	\$ 11,841	\$ 77,515
Due from other governmental units	7,181	-	6,051	13,232
Inventories	14,461	-	-	14,461
<b>TOTAL ASSETS</b>	<b>\$ 35,285</b>	<b>\$ 52,031</b>	<b>\$ 17,892</b>	<b>\$ 105,208</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 18,380	\$ 2,787	\$ 774	\$ 21,941
Accrued salaries and related items	43	-	3,174	3,217
Due to other governmental units	11	-	-	11
Deferred revenue	13,739	-	-	13,739
<b>TOTAL LIABILITIES</b>	<b>32,173</b>	<b>2,787</b>	<b>3,948</b>	<b>38,908</b>
<b>FUND BALANCES:</b>				
Reserved for inventories	3,112	-	-	3,112
Unreserved/undesignated	-	49,244	13,944	63,188
<b>TOTAL FUND BALANCES</b>	<b>3,112</b>	<b>49,244</b>	<b>13,944</b>	<b>66,300</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 35,285</b>	<b>\$ 52,031</b>	<b>\$ 17,892</b>	<b>\$ 105,208</b>

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2008**

	<b>Food Service</b>	<b>Athletics</b>	<b>Public Library</b>	<b>Total</b>
<b>REVENUES:</b>				
Local sources:				
Township appropriated income	\$ -	\$ -	\$ 2,712	\$ 2,712
Sales and admissions	610,511	114,358	-	724,869
Investment earnings	1,209	619	408	2,236
Other	-	7,926	7,229	15,155
Intermediate sources	-	-	27,541	27,541
State sources	52,053	-	9,625	61,678
Federal sources	340,878	-	-	340,878
	<u>1,004,651</u>	<u>122,903</u>	<u>47,515</u>	<u>1,175,069</u>
Total revenues				
<b>EXPENDITURES:</b>				
Salaries	290,177	290,017	19,452	599,646
Benefits	149,350	101,119	4,604	255,073
Purchased services	107,783	146,199	17,619	271,601
Supplies and materials	455,361	42,968	3,955	502,284
Other expenses	250	20,073	218	20,541
	<u>1,002,921</u>	<u>600,376</u>	<u>45,848</u>	<u>1,649,145</u>
Total expenditures				
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>1,730</u>	<u>(477,473)</u>	<u>1,667</u>	<u>(474,076)</u>
<b>OTHER FINANCING SOURCES:</b>				
Operating transfers from other funds	<u>-</u>	<u>500,000</u>	<u>-</u>	<u>500,000</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>1,730</u>	<u>22,527</u>	<u>1,667</u>	<u>25,924</u>
<b>FUND BALANCES:</b>				
Beginning of year	<u>1,382</u>	<u>26,717</u>	<u>12,277</u>	<u>40,376</u>
End of year	<u>\$ 3,112</u>	<u>\$ 49,244</u>	<u>\$ 13,944</u>	<u>\$ 66,300</u>

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
DEBT SERVICE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2008**

	<u>2002 Debt</u>	<u>2004 Debt</u>	<u>2006 Debt</u>	<u>2007 Debt</u>	<u>Total</u>
<b>ASSETS</b>					
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 88,074	\$ 175,462	\$ 26,430	\$ 31,042	\$ 321,008
Property taxes receivable	<u>921</u>	<u>1,543</u>	<u>642</u>	<u>184</u>	<u>3,290</u>
<b>TOTAL ASSETS</b>	<u>\$ 88,995</u>	<u>\$ 177,005</u>	<u>\$ 27,072</u>	<u>\$ 31,226</u>	<u>\$ 324,298</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES:</b>					
Due to other governmental units	\$ 997	\$ 1,491	\$ 58	\$ 111	\$ 2,657
Deferred revenue	<u>587</u>	<u>865</u>	<u>558</u>	<u>-</u>	<u>2,010</u>
<b>TOTAL LIABILITIES</b>	<u>1,584</u>	<u>2,356</u>	<u>616</u>	<u>111</u>	<u>4,667</u>
<b>FUND BALANCES:</b>					
Reserved for debt service	<u>87,411</u>	<u>174,649</u>	<u>26,456</u>	<u>31,115</u>	<u>319,631</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 88,995</u>	<u>\$ 177,005</u>	<u>\$ 27,072</u>	<u>\$ 31,226</u>	<u>\$ 324,298</u>

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
DEBT SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2008**

	<u>2002 Debt</u>	<u>2004 Debt</u>	<u>2006 Debt</u>	<u>2007 Debt</u>	<u>Total</u>
<b>REVENUES:</b>					
Local sources:					
Property taxes	\$ 915,505	\$ 1,845,761	\$ 228,552	\$ 646,708	\$ 3,636,526
Investment earnings	8,444	14,935	3,723	2,992	30,094
	<u>923,949</u>	<u>1,860,696</u>	<u>232,275</u>	<u>649,700</u>	<u>3,666,620</u>
<b>EXPENDITURES:</b>					
Principal repayments	600,000	1,235,000	30,000	200,000	2,065,000
Interest on bonded debt	559,960	758,151	404,775	1,102,127	2,825,013
Other	5,203	7,238	467	458	13,366
	<u>1,165,163</u>	<u>2,000,389</u>	<u>435,242</u>	<u>1,302,585</u>	<u>4,903,379</u>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	<u>(241,214)</u>	<u>(139,693)</u>	<u>(202,967)</u>	<u>(652,885)</u>	<u>(1,236,759)</u>
<b>OTHER FINANCING SOURCES:</b>					
Proceeds from school bond loan fund	-	172,187	-	684,000	856,187
<b>NET CHANGE IN FUND BALANCES</b>	(241,214)	32,494	(202,967)	31,115	(380,572)
<b>FUND BALANCES:</b>					
Beginning of year	328,625	142,155	229,423	-	700,203
End of year	<u>\$ 87,411</u>	<u>\$ 174,649</u>	<u>\$ 26,456</u>	<u>\$ 31,115</u>	<u>\$ 319,631</u>

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
GENERAL FUND  
STATEMENT OF EXPENDITURES AND OTHER FINANCING USES  
JUNE 30, 2008**

						<b>Totals</b>	
	<b>Salaries</b>	<b>Employee benefits</b>	<b>Purchased services</b>	<b>Supplies and materials</b>	<b>Other expenses</b>	<b>2008</b>	<b>2007</b>
Instruction:							
Elementary	\$ 3,458,834	\$ 1,689,519	\$ 122,900	\$ 120,724	\$ 3,644	\$ 5,395,621	\$ 5,234,472
Middle school	1,972,484	984,399	60,515	99,512	39,797	3,156,707	3,030,495
High school	2,684,550	1,318,582	106,190	272,754	15,680	4,397,756	4,017,296
Readiness	28,490	11,650	126	6,195	9,463	55,924	47,169
Special education	878,396	500,102	20,755	5,476	324,977	1,729,706	1,517,970
Compensatory education	286,180	150,628	3,500	-	-	440,308	370,405
Vocational education	5,765	441	-	6,496	15,540	28,242	67,314
Total instruction	9,314,699	4,655,321	313,986	511,157	409,101	15,204,264	14,285,121
Supporting Services:							
Pupil services	622,580	292,088	4,218	4,137	671,553	1,594,576	1,543,763
Instructional staff services	631,214	292,666	106,091	24,379	69,631	1,123,981	1,077,602
General administration	183,659	84,405	107,410	5,443	16,580	397,497	390,076
School administration	757,216	378,077	142,908	10,856	4,671	1,293,728	1,233,517
Business services	232,521	113,862	54,581	7,579	61,862	470,405	809,181
Operations and maintenance	915,817	579,961	427,173	690,906	31,513	2,645,370	2,606,084
Transportation	512,917	333,218	32,997	272,655	867,928	2,019,715	1,747,991
Central services	84,411	64,842	8,801	-	-	158,054	98,929
Total support services	3,940,335	2,139,119	884,179	1,015,955	1,723,738	9,703,326	9,507,143
Community services	175,688	42,060	16,477	7,895	118	242,238	206,922
Outgoing transfers and other transactions	-	-	-	-	500,000	500,000	(485,000)
Total expenditures	<u>\$ 13,430,722</u>	<u>\$ 6,836,500</u>	<u>\$ 1,214,642</u>	<u>\$ 1,535,007</u>	<u>\$ 2,632,957</u>	<u>\$ 25,649,828</u>	<u>\$ 23,514,186</u>

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
BONDED DEBT  
JUNE 30, 2008**

\$24,115,000 Bonds issued November 6, 2002:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 600,000	\$ 270,988	\$ 270,988	2009	\$ 1,141,976
600,000	260,787	260,787	2010	1,121,574
600,000	249,987	249,987	2011	1,099,974
600,000	238,887	238,887	2012	1,077,774
690,000	227,487	227,487	2013	1,144,974
795,000	208,513	208,513	2014	1,212,026
900,000	186,650	186,650	2015	1,273,300
910,000	161,900	161,900	2016	1,233,800
920,000	136,875	136,875	2017	1,193,750
925,000	113,875	113,875	2018	1,152,750
925,000	90,750	90,750	2019	1,106,500
925,000	67,625	67,625	2020	1,060,250
1,025,000	44,500	44,500	2021	1,114,000
755,000	18,875	18,875	2022	792,750
<u>\$ 11,170,000</u>	<u>\$ 2,277,699</u>	<u>\$ 2,277,699</u>		<u>\$ 15,725,398</u>

The above bonds have interest rates from 3.150% to 5.000%. The bonds were issued for the purpose of erecting, furnishing and equipping an addition and or additions to, and partially remodeling, furnishing and re-furnishing, equipping school facilities; acquiring, installing and equipping educational technology for school facilities; erecting, furnishing and equipping an addition to and utility vehicle structure for the maintenance building; acquiring school buses; constructing, developing and improving outdoor physical education/athletic facilities, including tennis courts; acquiring, developing and improving sites; and to pay a portion of the costs of issuing the bonds.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
BONDED DEBT  
JUNE 30, 2008**

\$20,230,000 Bonds issued May 25, 2004:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 1,235,000	\$ 362,094	\$ 362,094	2009	\$ 1,959,188
1,215,000	343,569	343,569	2010	1,902,138
1,220,000	322,307	322,307	2011	1,864,614
1,215,000	299,432	299,432	2012	1,813,864
1,205,000	269,057	269,057	2013	1,743,114
1,190,000	245,710	245,710	2014	1,681,420
1,175,000	221,613	221,613	2015	1,618,226
1,165,000	197,525	197,525	2016	1,560,050
1,160,000	168,400	168,400	2017	1,496,800
1,155,000	139,400	139,400	2018	1,433,800
1,145,000	110,525	110,525	2019	1,366,050
1,140,000	81,900	81,900	2020	1,303,800
1,130,000	56,250	56,250	2021	1,242,500
1,120,000	28,000	28,000	2022	1,176,000
<u>\$ 16,470,000</u>	<u>\$ 2,845,782</u>	<u>\$ 2,845,782</u>		<u>\$ 22,161,564</u>

The above bonds have interest rates from 2.750% to 5.000%. The bond proceeds were used to refinance the 1996 bond issue and are subject to redemption prior to maturity at the option of the issuer in the manner and at the times as set forth in the bonds.



**THORNAPPLE KELLOGG SCHOOL DISTRICT  
BONDED DEBT  
JUNE 30, 2008**

\$10,000,000 Bonds issued November 14, 2006:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 30,000	\$ 201,788	\$ 201,788	2009	\$ 433,576
30,000	201,187	201,187	2010	432,374
30,000	200,587	200,587	2011	431,174
35,000	199,987	199,987	2012	434,974
35,000	199,287	199,287	2013	433,574
35,000	198,588	198,588	2014	432,176
40,000	197,888	197,888	2015	435,776
40,000	197,088	197,088	2016	434,176
40,000	196,288	196,288	2017	432,576
40,000	195,487	195,487	2018	430,974
45,000	194,687	194,687	2019	434,374
45,000	193,787	193,787	2020	432,574
50,000	192,887	192,887	2021	435,774
415,000	191,888	191,888	2022	798,776
1,415,000	183,588	183,588	2023	1,782,176
1,455,000	155,287	155,287	2024	1,765,574
1,490,000	126,187	126,187	2025	1,742,374
1,525,000	96,015	96,015	2026	1,717,030
1,560,000	64,752	64,752	2027	1,689,504
1,570,000	32,579	32,579	2028	1,635,158
<u>\$ 9,925,000</u>	<u>\$ 3,419,832</u>	<u>\$ 3,419,832</u>		<u>\$ 16,764,664</u>

The above bonds have interest rates from 4.000% to 4.125%. The bond proceeds were used to refinance a portion of the 2002 bond issue and are subject to redemption prior to maturity at the option of the issuer in the manner and at the times as set forth in the bonds.

**THORNAPPLE KELLOGG SCHOOL DISTRICT**  
**BONDED DEBT**  
**JUNE 30, 2008**

\$28,960,000 Bonds issued July 17, 2007:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
265,000	\$ 694,531	\$ 694,531	2009	\$ 1,654,062
360,000	689,231	689,231	2010	1,738,462
440,000	681,581	681,581	2011	1,803,162
535,000	672,231	672,231	2012	1,879,462
565,000	660,863	660,863	2013	1,886,726
590,000	648,856	648,856	2014	1,887,712
615,000	634,106	634,106	2015	1,883,212
750,000	618,731	618,731	2016	1,987,462
890,000	601,856	601,856	2017	2,093,712
1,045,000	581,831	581,831	2018	2,208,662
1,210,000	555,706	555,706	2019	2,321,412
1,380,000	525,456	525,456	2020	2,430,912
1,455,000	492,681	492,681	2021	2,440,362
1,550,000	458,125	458,125	2022	2,466,250
1,675,000	419,375	419,375	2023	2,513,750
1,675,000	379,594	379,594	2024	2,434,188
1,675,000	339,813	339,813	2025	2,354,626
1,675,000	300,031	300,031	2026	2,275,062
1,675,000	260,250	260,250	2027	2,195,500
1,675,000	218,375	218,375	2028	2,111,750
1,760,000	176,500	176,500	2029	2,113,000
1,765,000	132,500	132,500	2030	2,030,000
1,765,000	88,375	88,375	2031	1,941,750
1,770,000	44,250	44,250	2032	1,858,500
<u>\$ 28,760,000</u>	<u>\$ 10,874,848</u>	<u>\$ 10,874,848</u>		<u>\$ 50,509,696</u>

The above bonds have interest rates from 4.000% to 5.000%. The bonds were issued for the purpose of erecting, furnishing and equipping an addition and or additions to, and partially remodeling, furnishing and re-furnishing, equipping school facilities; acquiring, installing and equipping educational technology for school facilities; erecting, furnishing and equipping an addition to and utility vehicle structure for the maintenance building; acquiring school buses; constructing, developing and improving outdoor physical education/athletic facilities, including tennis courts; acquiring, developing and improving sites; and to pay a portion of the costs of issuing the bonds.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
BONDED DEBT  
JUNE 30, 2008**

\$253,744 Durant Bond – issued on November 24, 1998

Principal due May 15,	Interest due May 15,	Debt service requirement for fiscal year	
		June 30,	Amount
\$ 22,104	\$ 5,787	2009	\$ 27,891
23,156	4,735	2010	27,891
24,259	3,633	2011	27,892
25,412	2,477	2012	27,889
67,857	15,811	2013	83,668
<u>\$ 162,788</u>	<u>\$ 32,443</u>		<u>\$ 195,231</u>

This bond is not subject to redemption prior to maturity by the District and the District hereby covenants that it will not issue any other bonds or obligations for the purpose of refunding this bond. The 4.76% interest rates payable on this bond may be adjusted in the sole discretion of the Authority provided that no interest rate shall exceed the maximum rate permitted by law and no interest rate adjustment which causes the total interest payable on this bond to increase shall be permitted.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the District (the “State Aid Payments”). The District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority’s depository.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
SCHEDULE OF BORROWINGS - STATE OF MICHIGAN  
SCHOOL BOND LOAN FUND  
JUNE 30, 2008**

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Bond Loan Fund. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from and repayments to the State under this program have been summarized as follows:

Year ended June 30,	Loan proceeds	Interest expense	Loan balance (net change)
Loan balance at June 30, 2002	\$ -	\$ -	\$ 4,073,932
2003	69,011	139,234	208,245
2004	1,544,886	142,529	1,687,415
2005	785,924	193,798	979,722
2006	-	283,700	283,700
2007	-	343,318	343,318
2008	-	340,499	340,499
Totals June 30, 2008	<u>\$ 2,399,821</u>	<u>\$ 1,443,078</u>	<u>\$ 7,916,831</u>

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
SCHEDULE OF BORROWINGS - STATE OF MICHIGAN  
SCHOOL LOAN REVOLVING FUND  
JUNE 30, 2008**

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Loan Revolving Fund. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from and repayments to the State under this program have been summarized as follows:

Year ended June 30,	Loan proceeds	Interest expense	Loan balance (net change)
Loan balance at June 30, 2005	\$ -	\$ -	\$ -
2006	264,155	8,261	272,416
2007	466,120	29,206	495,326
2008	856,187	54,928	911,115
Totals June 30, 2008	<u>\$ 1,586,462</u>	<u>\$ 92,395</u>	<u>\$ 1,678,857</u>

**THORNAPPLE KELLOGG SCHOOL DISTRICT**

**ADDITIONAL REPORTS REQUIRED BY**

**OMB CIRCULAR A-133**

**YEAR ENDED JUNE 30, 2008**

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education  
Thornapple Kellogg School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Thornapple Kellogg School District as of and for the year ended June 30, 2008, which collectively comprise Thornapple Kellogg School District's basic financial statements and have issued our report thereon dated October 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Thornapple Kellogg School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Thornapple Kellogg School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Thornapple Kellogg School District's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.



Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Thornapple Kellogg School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Thornapple Kellogg School District in a separate letter dated October 16, 2008.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Maner, Costurison & Ellis, P.C.*

October 16, 2008



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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education  
Thornapple Kellogg School District

Compliance

We have audited the compliance of Thornapple Kellogg School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. Thornapple Kellogg School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Thornapple Kellogg School District's management. Our responsibility is to express an opinion on Thornapple Kellogg School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Thornapple Kellogg School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Thornapple Kellogg School District's compliance with those requirements.

In our opinion, Thornapple Kellogg School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

### Internal Control Over Compliance

The management of Thornapple Kellogg School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Thornapple Kellogg School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Thornapple Kellogg School District's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Thornapple Kellogg School District as of and for the year ended June 30, 2008, and have issued our report thereon dated October 16, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Thornapple Kellogg School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Maner, Costurison & Ellis, P.C.*

October 16, 2008

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2007	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2008
<u>U.S. Department of Agriculture:</u>								
Passed through the Michigan Department of Education:								
Child Nutrition Cluster:								
National School Breakfast	10.553	071970	\$ 34,490	\$ 1,176	\$ 31,701	\$ 3,965	\$ 2,789	\$ -
		081970	31,701	-	-	31,701	31,701	-
			66,191	1,176	31,701	35,666	34,490	-
National School Lunch	10.555	071950	65,077	4,782	57,627	12,232	7,450	-
		081950	58,102	-	-	58,102	58,102	-
		071960	173,579	1,714	153,367	21,926	20,212	-
		081960	168,194	-	-	168,194	168,194	-
			464,952	6,496	210,994	260,454	253,958	-
Total Child Nutrition Cluster			531,143	7,672	242,695	296,120	288,448	-
Commodities: Food Distribution Entitlement	10.550		52,430	-	-	52,430	52,430	-
Total U.S. Department of Agriculture			583,573	7,672	242,695	348,550	340,878	-

The accompanying notes are an integral part of this schedule.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2007	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2008
<u>U.S. Department of Education:</u>								
Passed through Kent Intermediate School District:								
Special Education Cluster:								
Individuals with Disabilities Education Act - Flow Through	84.027	070450/0607	\$ 353,099	\$ 140,590	\$ 353,099	\$ 140,590	\$ -	\$ -
		080450/0708	381,498	-	-	232,131	381,498	149,367
			<u>734,597</u>	<u>140,590</u>	<u>353,099</u>	<u>372,721</u>	<u>381,498</u>	<u>149,367</u>
Individuals with Disabilities Education Act - Transition	84.027A	080490TS	1,500	-	-	1,500	1,500	-
Individuals with Disabilities Education Act - Preschool	84.173	070460/0607	17,666	6,660	17,666	6,660	-	-
		080460/0708	21,535	-	-	12,619	21,535	8,916
			<u>39,201</u>	<u>6,660</u>	<u>17,666</u>	<u>19,279</u>	<u>21,535</u>	<u>8,916</u>
Total special education cluster			<u>775,298</u>	<u>147,250</u>	<u>370,765</u>	<u>393,500</u>	<u>404,533</u>	<u>158,283</u>
Safe and Drug Free Schools	84.186A	082860/0708	5,480	-	-	5,480	5,480	-
Total passed through Kent Intermediate School District			<u>780,778</u>	<u>147,250</u>	<u>370,765</u>	<u>398,980</u>	<u>410,013</u>	<u>158,283</u>

The accompanying notes are an integral part of this schedule.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2007	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2008
<u>U.S. Department of Education (Concluded):</u>								
Passed through the Michigan Department of Education :								
Title I	84.010	081530/0708	\$ 161,945	\$ -	\$ -	\$ 161,945	\$ 161,945	\$ -
Title V	84.298	080250/0708	611	-	-	611	611	-
Title II Part D	84.318	084290/0708	1,522	-	-	1,522	1,522	-
Title II Part A	84.367	070520/0607	85,904	-	-	85,904	85,904	-
Total passed through Michigan Department of Education			249,982	-	-	249,982	249,982	-
Total U.S. Department of Education			1,030,760	147,250	370,765	648,962	659,995	158,283
<u>U.S. Department of Health and Human Services:</u>								
Passed through Kent Intermediate School District:								
Medicaid Outreach	93.778	2006-07	1,119	1,119	1,119	1,119	-	-
		2007-08	2,548	-	-	-	2,548	2,548
Total U.S. Department of Health and Human Services			3,667	1,119	1,119	1,119	2,548	2,548
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$1,618,000	\$156,041	\$ 614,579	\$ 998,631	\$ 1,003,421	\$160,831

The accompanying notes are an integral part of this schedule.

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

NOTES:

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of Thornapple Kellogg School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. The special education cluster (CFDA #84.027, #84.027A and #84.173) was audited as a major program, representing 40% of expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Management has utilized the Grant Section Auditors' Report (Form R7120) and the Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.
5. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	\$ 662,543
Special revenue fund	<u>340,878</u>
	<u><u>\$ 1,003,421</u></u>

6. Program cluster contained within the schedule are as follows:

Child nutrition cluster consists of CFDA #10.553 and #10.555

Special education cluster consists of CFDA #84.027, #84.027A and #84.173.



**THORNAPPLE KELLOGG SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2008**

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**Section I - Summary of Auditors' Results**

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***Financial Statements***

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified?            Yes     X     No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?            Yes     X     No

Noncompliance material to financial statements noted?            Yes     X     No

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified:            Yes     X     No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?            Yes     X     None reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?            Yes     X     No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A and 84.173	Special Education Cluster (IDEA)

Dollar threshold used to distinguish between type A and type B programs:     \$    300,000    

Auditee qualified as low-risk auditee?     X     Yes            No

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**Section II - Financial Statement Findings**

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None

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**Section III - Federal Award Findings and Questioned Costs**

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None

**THORNAPPLE KELLOGG SCHOOL DISTRICT  
SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2008**

There were no audit findings required to be reported on this schedule for the year ended June 30, 2007.



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Leon A. Ellis (1933-1988)

October 16, 2008

To the Board of Education  
Thornapple Kellogg School District

In planning and performing our audit of the financial statements of Thornapple Kellogg School District as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Thornapple Kellogg School District internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 16, 2008 on the financial statements of Thornapple Kellogg School District. Our comments are summarized as follows.

**Uninsured bank deposits**

During recent months, we have all heard the numerous issues involving the banking industry. Currently, it is our understanding; there are limits to FDIC insured balances. Generally, the limits are \$100,000 for demand accounts (checking) and \$100,000 for time deposit accounts (savings/certificates of deposit). Districts may also request certain funds be collateralized by the bank. There are other options regarding investing surplus funds from investment pools and treasury investments to commercial paper.

We are not investment advisors; however, we encourage you to meet with your investment representatives to review all of your options regarding surplus funds. We also recommend you review the District's investment policy to ensure it continues to satisfy the District's goals.

We will review the status of this comment during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss this comment in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

*Maner, Costurison & Ellis, P.C.*



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October 16, 2008

To the Board of Education  
Thornapple Kellogg School District

We have audited the financial statements of Thornapple Kellogg School District for the year ended June 30, 2008, and have issued our report thereon dated October 16, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Thornapple Kellogg School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirement that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Thornapple Kellogg School District's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Thornapple Kellogg School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Thornapple Kellogg School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Thornapple Kellogg School District's compliance with those requirements.

## Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 10, 2008.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Thornapple Kellogg School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the liability of the payout of employee compensated absences upon their retirement is based on expected payout. In addition, certain fixed assets were originally recorded using external appraisers estimates. Certain allocations on the statement of activities are based on estimates. We evaluated the key factors and assumptions used to develop the balance of compensated absences and value of fixed assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users. There were no sensitive disclosures affecting the financial statements.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not note any uncorrected misstatements during our audit.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 16, 2008.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of Thornapple Kellogg School District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Maner, Costurison & Ellis, P.C.*